

IN THE NEWS

Bank Drops Card Rate

CHICAGO — Merchants National Bank and Trust Co. of Indianapolis is lowering the interest rate it charges on its MasterCard credit cards to 17.8% from 19.8%. It will also advance customers the necessary funds to pay off existing balances on other credit cards which may be charging a higher rate. The cash advance will then bear interest at 17.8%. The bank said it is reducing its finance charges because of its lower cost of funds.

New Fed Bank Director

NEW YORK — Richard L. Gelb, chairman and chief executive officer of Bristol-Myers Co., New York, was elected a director of the Federal Reserve Bank of New York. Mr. Gelb will join the board for a three-year term on Jan. 1, 1986, as one of the board's six public representatives. He replaces William S. Cook, president of Union Pacific Corp.

Cigna Sells Name Rights

PHILADELPHIA — Cigna Corp. said it sold its rights to the Aetna trade name to Aetna Life & Casualty Co. to more closely identify the Cigna name with the Cigna Property-Casualty Group. The Aetna name had been used by subsidiaries of Connecticut General Corp. since 1962 when Connecticut General acquired the Aetna Insurance Co. and by Cigna's Property-Casualty Group since 1982 when Connecticut General and INA merged to form Cigna.

Dissident Shareholder Suit

HARRISBURG, Pa. — Commonwealth National Financial Corp., which has reached a tentative agreement to merge with Mellon Bank Corp., said a dissident shareholder filed suit in Federal District Court in Pennsylvania seeking to delay the Dec. 30 meeting at which shareholders are scheduled to vote on the merger. Commonwealth said the suit seeks damages and other relief in connection with the proposed merger and related agreements. Commonwealth did not identify the shareholder. A spokesman said the suit is without merit.

MasterCard Record

NEW YORK — MasterCard International Inc. said purchases with its credit cards hit \$503.5 million on Christmas Eve, a record Christmas Eve for the company. During the season between Thanksgiving and Christmas, total credit card transactions for MasterCard ranged from \$300-\$400 million daily, topping the \$400 million mark on some days and the \$500 million mark twice.

Cost of Funds Eases

WASHINGTON — The Federal Home Loan Bank Board today reported that the annualized average cost of funds for institutions insured by the Federal Savings and Loan Insurance Corp. declined 31 basis points to 9.04% during the third quarter of 1985.

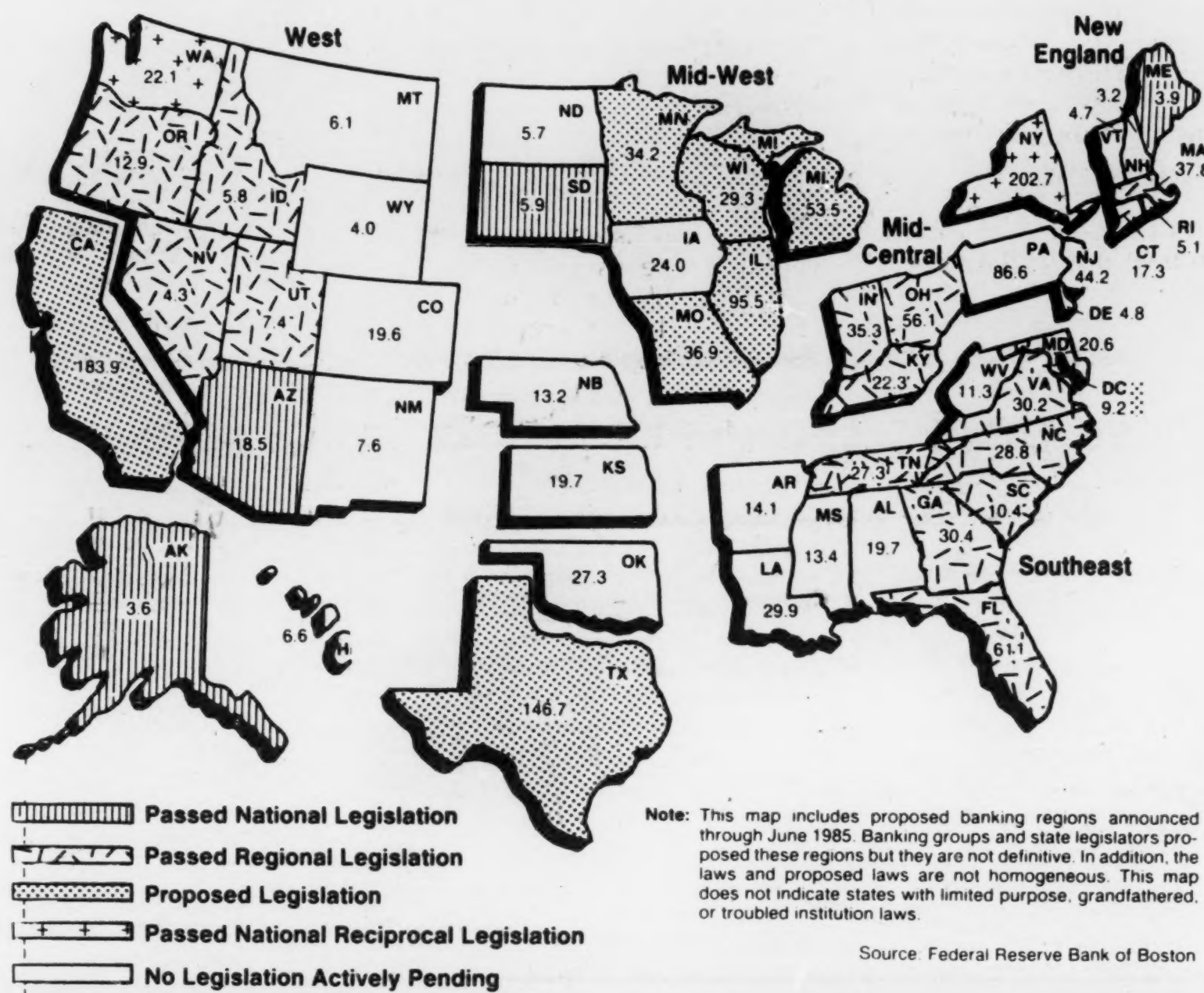
— Compiled by Kenneth J. Hicks

A Look at Developments in Interstate Banking

Principal Interstate Banking Regions Being Considered by the States

As of December, 1985

1984 Year End Commercial Bank Deposits in Billions of Dollars



Partners in Pending or Completed Interstate Deals

New England

CBT Corp.	Bank of New England Corp.(a)
Hartford, Conn.	Boston, Mass.
Bank of New England	Old Colony Bank(b)
Boston, Mass.	Providence, Mass.
Bank of New England	Maine National Corp.(a)
Boston, Mass.	Portland, Maine
Bank of Boston Corp.	Colonial Bancorp Inc.(a)
Boston, Mass.	Waterbury, Conn.
Bank of Boston Corp.	RIHT Financial Corp.(a)
Boston, Mass.	Providence, R.I.
Bank of Boston Corp.	Casco-Northern Corp.(a)
Boston, Mass.	Portland, Maine
Hartford National Corp.	Aritu Bancorp Inc.(a)
Hartford, Conn.	Lawrence, Mass.
Hartford National Corp.	Provident Institution for Savings(b)
Hartford, Conn.	Boston, Mass.
Fleet Financial Group	First Connecticut Bancorp(b)
Providence, R.I.	Hartford, Conn.
Fleet Financial Group	Merrill Bankshares Corp.(b)
Providence, R.I.	Portland, Maine
Citizens Financial	Capitol Bancorp(b)
Providence, R.I.	Boston, Mass.

The Southeast

Sun Banks Inc.	Trust Company of Georgia(a)
Orlando, Fla.	Atlanta, Ga.
Citizens & Southern Georgia Corp.	Landmark Banking Corp.(a)
Atlanta, Ga.	Fort Lauderdale, Fla.
Citizens & Southern Georgia Corp.	Citizens & Southern Corp.(b)
Atlanta, Ga.	Charleston, S.C.
Wachovia Corp.	First Atlanta Corp.(a)
Winston-Salem, N.C.	Atlanta, Ga.
First Union Corp.	Atlantic Bancorp.(a)
Charlotte, N.C.	Jacksonville, Fla.
First Union Corp.	Central Florida Bank Corp.(b)
Charlotte, N.C.	Dade City, Fla.
First Union Corp.	Southern Bancorp.(b)
Charlotte, N.C.	Greenville, S.C.
First Union Corp.	Citizens DeKalb Bank(b)
Charlotte, N.C.	Clarkston, Ga.
First Union Corp.	First Bankers Corp.(b)
Charlotte, N.C.	Pompano Beach, Fla.
NCNB Corp.	Bankers Trust of S.C.(b)
Charlotte, N.C.	Columbia, S.C.

NCNB Corp.	Pan American Banks Inc.(b)
Charlotte, N.C.	Miami, Fla.
NCNB Corp.	Southern Natl. Bankshares(b)
Charlotte, N.C.	Atlanta, Ga.
Sovran Financial Corp.	D.C. National Bancorp(b)
Norfolk, Va.	Washington, D.C.
Sovran Financial Corp.	Suburban Bancorp(b)
Norfolk, Va.	Bethesda, Md.
Bank of Virginia Co.	Union Trust Bancorp(b)
Richmond, Va.	Baltimore, Md.
Bank of Virginia Co.	Security National Corp.(b)
Richmond, Va.	Washington, D.C.
Southern National Corp.	Horry County National Bank(b)
Lumberton, N.C.	Loris, S.C.
First American Corp.	First Ashland Corp.(b)
Nashville, Tenn.	Ashland, Ky.
United Va. Bankshares	Bethesda Bancorp(b)
Richmond, Va.	Bethesda, Md.
United Va. Bankshares	NS&T Bank(b)
Richmond, Va.	Washington, D.C.
James Madison Ltd.	McLean Bank(b)
Washington, D.C.	McLean, Va.
James Madison Ltd.	First Continental Bank(b)
Washington, D.C.	Silver Spring, Md.
Equitable Bancorp.	Prince William Bank(b)
Baltimore, Md.	Prince William, Va.
Dominion Bankshares	State National Bank(b)
Roanoke, Va.	Rockville, Md.

The West

Zions Utah Bancorp	Nevada State Bank(a)
Salt Lake City, Utah	Las Vegas, Nev.
Moore Financial Group	Continental Bank & Trust(a)
Boise, Idaho	Salt Lake City, Utah
BankAmerica Corp.	Oregon Bank
San Francisco, Calif.	Portland, Ore.

The Midwest

NBD Bancorp Inc.	Midwest Commerce Corp.(b)
Detroit, Mich.	Elkhart, Ind.
Huntington Bankshares	Central Bancorp(b)
Columbus, Ohio	Danville, Ind.
Huntington Bankshares	Commonwealth Trust Co.(b)
Columbus, Ohio	Covington, Ky.
Fifth Third Bancorp	American Bancorp(b)
Cincinnati, Ohio	Newport, Ky.
Fifth Third Bancorp	First Kentucky Bancshares(b)
Cincinnati, Ohio	Florence, Ky.

Banc One Corp.	Purdue National Corp.(b)
Columbus, Ohio	Lafayette, Ind.
Banc One Corp.	Bank of Indiana(b)
Columbus, Ohio	Gary, Ind.
Banc One Corp.	Marion Bancorp(b)
Columbus, Ohio	Marion, Ind.
Banc One Corp.	First Crawfordville Financial(b)
Columbus, Ohio	Crawfordsville, Ind.
Banc One Corp.	KYNB Bancshares (b)
Columbus, Ohio	Lexington, Ky.
CNB Bancshares	Peoples First Bancorp(b)
Evansville, Ind.	Madisonville, Ky.
Ameritrust Corp.	First Indiana Bancorp(b)
Cleveland, Ohio	Elkhart, Ind.
First Natl. Cincinnati	Newport National Bank(b)
Cincinnati, Ohio	Newport, Ky.
Toledo Trustcorp	Salem Financial Corp.(b)
Toledo, Ohio	Goshen, Ind.
Citizens Fidelity Corp.	Indiana Southern Bank(b)
Louisville, Ky.	Sellersburg, Ind.
Citizens Fidelity Corp.	United Bank(b)
Louisville, Ky.	Clarksville, Ind.

National Deals

Security Pacific Corp.	Arizona Bancwest Corp.(b)
Los Angeles, Calif.	Phoenix, Ariz.
Union Bancorp Inc.	United Bancorp of Ariz. (b)
Los Angeles, Calif.	Phoenix, Ariz.
Citicorp	Great Western Bank & Trust(b)
New York, N.Y.	Phoenix, Ariz.
Chase Manhattan Corp.	Continental Bancorp(b)
New York, N.Y.	Phoenix, Ariz.
Norstar Bancorp Inc.	Northeast Bankshares (a)
Albany, N.Y.	Portland, Maine
Norstar Bancorp Inc.	Bank of Maine(a)
Albany, N.Y.	Augusta, Maine
KeyCorp	Depositors Corp.(a)
Albany, N.Y.	Augusta, Maine
KeyCorp	Alaska Pacific Bancorp(a)
Albany, N.Y.	Anchorage, Alaska
KeyCorp	Bank of Oregon(a)
Albany, N.Y.	Woodburn, Ore.
KeyCorp	Beaver State Bank(b)
Albany, N.Y.	Beaverton, Ore.
Rainier Bancorp.	Peoples Bank & Trust Co.(a)
Seattle, Wash.	Anchorage, Alaska

(a) Acquisition completed.
(b) Acquisition pending.

More Regional Deals Seen for '86

Continued from Page 1

try to banks from anywhere in the nation.

And the nation is now divided into four general banking regions: the New England states, the Southeast, the Midwest, and the West. Subregions also are developing, with the fastest growing being the District of Columbia-Virginia-Maryland market in the Southeast.

Another subregion is expected to emerge next year among the Middle Atlantic States of New Jersey, Pennsylvania, and Delaware. This subregion would extend into the Midwest and Southeast regions.

Generally included in the New England region are Massachusetts, Connecticut, Rhode Island, Maine, Vermont, and New Hampshire, although the last two haven't yet passed interstate banking laws. In the Southeast are Florida, Georgia, North Carolina, South Carolina, Virginia, Maryland, the District of Columbia, and Tennessee. States to be included in the southeastern region that have not yet passed interstate banking laws are Alabama, Arkansas, Louisiana, Mississippi, and West Virginia.

In the Midwest are Indiana, Ohio, Illinois, Michigan, and Kentucky. Eventually, Wisconsin, Missouri, Kansas, Minnesota, Iowa, Nebraska, South Dakota, North Dakota, and Oklahoma are expected to join up.

The western region is generally thought of as including Utah, Arizona, Alaska, Hawaii, Oregon, Washington, Nevada, and Idaho and may eventually extend to Colorado, Montana, and New Mexico. Arizona and Washington have passed laws permitting nationwide entry.

Left regionless are New York, California, and Texas, though California is

viewed by some states as part of the western banking region.

A total of 54 regional deals are now pending or completed, including 11 in New England, 24 in the Southeast, 16 in the Midwest, and three in the West.

And the deal-makers are unlikely to rest in 1986. The following is a region-by-region breakdown of what is likely to occur next year:

• **Middle Atlantic States:** The market clearly expects this area, particularly New Jersey, to be hot next year. For example, stock prices of the 12 largest New Jersey banks have risen over 50% this year, according to a recent research report by Keefe, Bruyette & Woods Inc. In contrast, stock prices of the money center and the larger regional banks have risen 24% this year.

The New Jersey Legislature is expected to pass a bill next year allowing the acquisition of its banks initially by companies in Pennsylvania, Ohio, and Kentucky.

"Though it's unlikely that the Kentucky banks will be acquirers in New Jersey, there's every reason to believe that banks in Pennsylvania and Ohio will be," the Keefe report stated. "For those headquartered in Philadelphia with operations in the eastern part of the state, New Jersey represents a natural extension of their franchise."

"A number of these banks' lending officers already call on New Jersey firms," the report continued. "For those banks in Ohio and western Pennsylvania, New Jersey's healthy economy provides an opportunity for growth beyond that available in their existing markets."

• **New England:** In this, the oldest of the regions, many of the attractive companies have already been taken. For example, all of the large bank hold-

'85 preview '86

ing companies in Maine have either been acquired or have accepted takeover offers from out-of-state companies.

New England bank analysts expect more deals involving thrifts, such as Hartford National Corp.'s proposed acquisition of the Provident Institution for Savings in Boston. The Federal Reserve Board has permitted bank holding companies to buy savings banks. Most recently, the Fed allowed Bank of New England Corp. to acquire Old Colony Bank, a federally chartered savings bank based in Providence, R.I.

• **The Southeast:** Florida, the most attractive state, has few remaining takeover candidates, and the same can be said of South Carolina, North Carolina, and Georgia. In Florida, the largest prospects are Southeast Banking Corp. in Miami and Florida National Banks of Florida Inc., Jacksonville, both of which present problems to potential buyers.

Southeast management has twice rejected merger offers, once from First Union Corp., Charlotte, N.C., and most recently from Barnett Banks of Florida Inc., Jacksonville, in both cases saying that the companies could not agree on an exchange ratio. Any potential buyer of Florida National would have to buy out Chemical New York Corp., which owns a large block of the Jacksonville company's preferred stock.

Managements of the large southeastern regional banks are saying that they expect 1986 to be a year of consolida-

tion, but analysts expect moves into Tennessee and perhaps the District of Columbia-Virginia-Maryland area.

• **The Midwest:** The deals announced in this region have been relatively small, mostly with Ohio bank holding companies buying relatively small banks in Indiana and Kentucky. The largest announced so far is the proposed acquisition of Midwest Commerce Corp. in Elkhart, Ind., by NBD Bancorp Inc., Detroit.

The deals will undoubtedly become larger next year, especially now that Michigan and Illinois have enacted regional statutes.

• **The West:** This is the least developed region, with only a handful of regional deals. Most of the action has taken place in Arizona, a state that permits nationwide entry.

The state's second and third largest bank holding companies, Arizona BancWest Corp. and United Bancorp of Arizona, already are spoken for — the former by Security Pacific Corp., and the latter by Union Bancorp Inc., both of Los Angeles. Citicorp and Chase Manhattan Corp. also have announced acquisitions in the state.

Valley National Corp., Arizona's largest bank holding company, is still available, but at current prices for Arizona banks, generally 2.5 to 3.0 times book value, the \$8.7 billion-asset Valley may have a billion-dollar price tag.

Banking analysts expect deals next year in Washington State, whose national interstate banking law takes effect in 1987. ■

Independent Banks Prosper Alongside the Giants in Florida

Special to the American Banker

TAMPA, Fla. — The headlong charge by banks into huge interstate regional combines was supposed to make the independent bank extinct.

When the U.S. Supreme Court upheld mergers within multistate regions last June, many industry officials thought it sounded the death knell for the small banks that for decades had been the mainstay of rural America.

Regional giants such as NCNB, Wachovia, and First Union would overtake the markets in which many of the tiny banks had prospered for years, the experts contended.

There would be no need for the independents, they said. The regional powers would offer customers more offices and more banking services.

But some analysts disagreed, saying there would be a greater need for the independents as consumers seek an alternative to the impersonal service and bureaucratic rigidity of the large banks.

In the Tampa Bay area of Hillsborough and Pinellas counties, independent banking is booming.

Why the resurgence of independents? Officers say their banks can still offer personal service to customers and have strong ties to their communities.

In the past, the small, locally owned bank represented the collective strength of the community. The local bank president was known to everyone in town. Often, loans were closed with little more than a handshake. There were few papers to fill out then, unlike today, when borrowers are handed a thick packet of forms to complete before waiting nervously for an answer from the loan committee.

But the independents declined as statewide banks grew, setting up shop in almost every community.

Now, some analysts contend, there is a reverse trend because the regional banks with their rigid operating rules and vast operations can't be as responsive as small banks to the needs of individual customers. The independents can stake out an

area and serve it well, the analysts say.

In the Tampa Bay area, more than half a dozen independent banks have sprung up in the past 18 months, and a similar number await approval from the regulators.

Local bank analysts give a simple reason for the resurgence of the independents — personal service. Many presidents of Tampa independent banks say customers can almost always get a quick audience with a senior officer.

"Big banks can't respond to customer needs, regardless of what they tell you," said Marc Perkins, president of PRV Investments in Tampa. "People ask what happened to the banker who could make a loan decision right away. That guy still exists in small independent banks."

Size of Big Banks Limits Flexibility

Mr. Perkins said the mere size of large banks makes them clumsy and forces them to have strict rules that remove any flexibility in dealing with customers. The analyst called that approach "following the manual."

"When they [larger banks] buy out smaller banks, occasionally the personal service remains for about a year because the oldtime employees refuse to give in to the manual," the analyst said. "But eventually, it loses that touch. There is no bureaucracy in a small bank."

The case of a borrower having to fill out a second financial statement only days after submitting the first one is an oft-repeated one with large banks, Mr. Perkins said.

Mr. Perkins said small banks do best with the upper-middle class, "the guy who earns \$60,000 to \$100,000 a year." When someone at that level needs a loan, he wants to be able to pick up the telephone, call his local banker and know he has it right away.

Mr. Perkins said small Florida banks have consistently outperformed their larger competitors on return on assets.

"Look around the state for the real high-earning banks," he said. "They are always the independents." ■

But Jim Chandler, a vice president with NCNB National Bank of North Carolina, Charlotte, said small banks traditionally post better return-on-asset figures than do large banks. Furthermore, he said, "I have a difficult time understanding how people think the small banks can provide any better service than a well-run large bank."

Mr. Chandler told of a bank manager at NCNB's office in Barton, a small Florida town east of Tampa, who "knows everybody in town and can approve a loan on the spot."

He conceded that sometimes his bank's red tape gets in the way, but "it is not supposed to be that way."

"I'm not saying it always works perfectly at the larger banks, but I also don't think people always get better service from small banks."

Independents Spring Up All Over

Regardless, the independents are springing up all over the Tampa area. Local analyst Perkins said he expects to see several more pop up in east Tampa which has been growing rapidly in the past two years.

Already open are Bay Federal Savings Bank in downtown Tampa, Gulf/Bay Bank in West Shore, Regency Bank of Tampa and Village Bank of Carrollwood in northwest Tampa, and Commerce Bank of Tampa and Bank of Tampa in west Tampa.

Scheduled to open are City Bank of Tampa in the West Shore area and Partners Savings Bank in south Tampa.

Gerald Archibald, president of Village Bank of Carrollwood, said the nation is in "the phase of a new generation of independent banks. There is a whole surge in the marketplace."

He said more independent banks may sprout up if interest rates drop again, making it even more attractive for investors.

"When they cannot earn decent returns on their money, they look at banks and other business ventures," Mr. Archibald said.

Most of the Tampa independent banks are locally owned, and several are totally funded with local money, officials said. ■



Community Banking

American Banker

The Daily Financial Services

15 38900 015 5/23/86 C11
STATISTICAL REFERENCE INDEX
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VOL. CLI NO. 1

Thursday, January 2, 1986

151st Year

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It's kind of Catch-22. You want to comply but also want to respect customers' right to privacy.

William Sutton, president of the Florida Bankers Association, on government objections to some exemptions to currency transaction reporting granted by banks. [1]

Unquote

Amortization of Loan Losses Possible, Clarke Says

By NINA EASTON
and BARTLETT NAYLOR

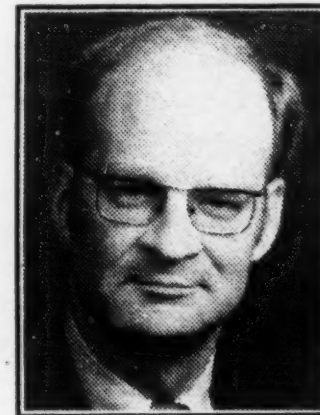
WASHINGTON — A plan that would permit banks to write off loans over a period of years is among the remedies federal regulators are considering to help troubled banks, according to Comptroller of the Currency Robert L. Clarke.

While lawmakers in Congress already are discussing a similar plan for farm banks, Mr. Clarke indicated in an interview on Tuesday that federal regulators may seek to extend that option to a broader array of troubled banks. However, he said, banks that exploit an amortization schedule — enabling them to write off loans over a period of years — should have to make "onerous" concessions, such as eliminating dividends for their stockholders or salary increases for their officers.

In the interview, Mr. Clarke also:

- Expanded on a proposal, which he had revealed last month, to provide government aid to troubled banks. Mr. Clarke said that this open bank assistance program, if adopted by the regulators, would probably include the involve-

ment of private investors, as well as the Federal Deposit Insurance Corp. As comptroller, Mr. Clarke is one of two FDIC directors who help guide policy with the FDIC chairman.



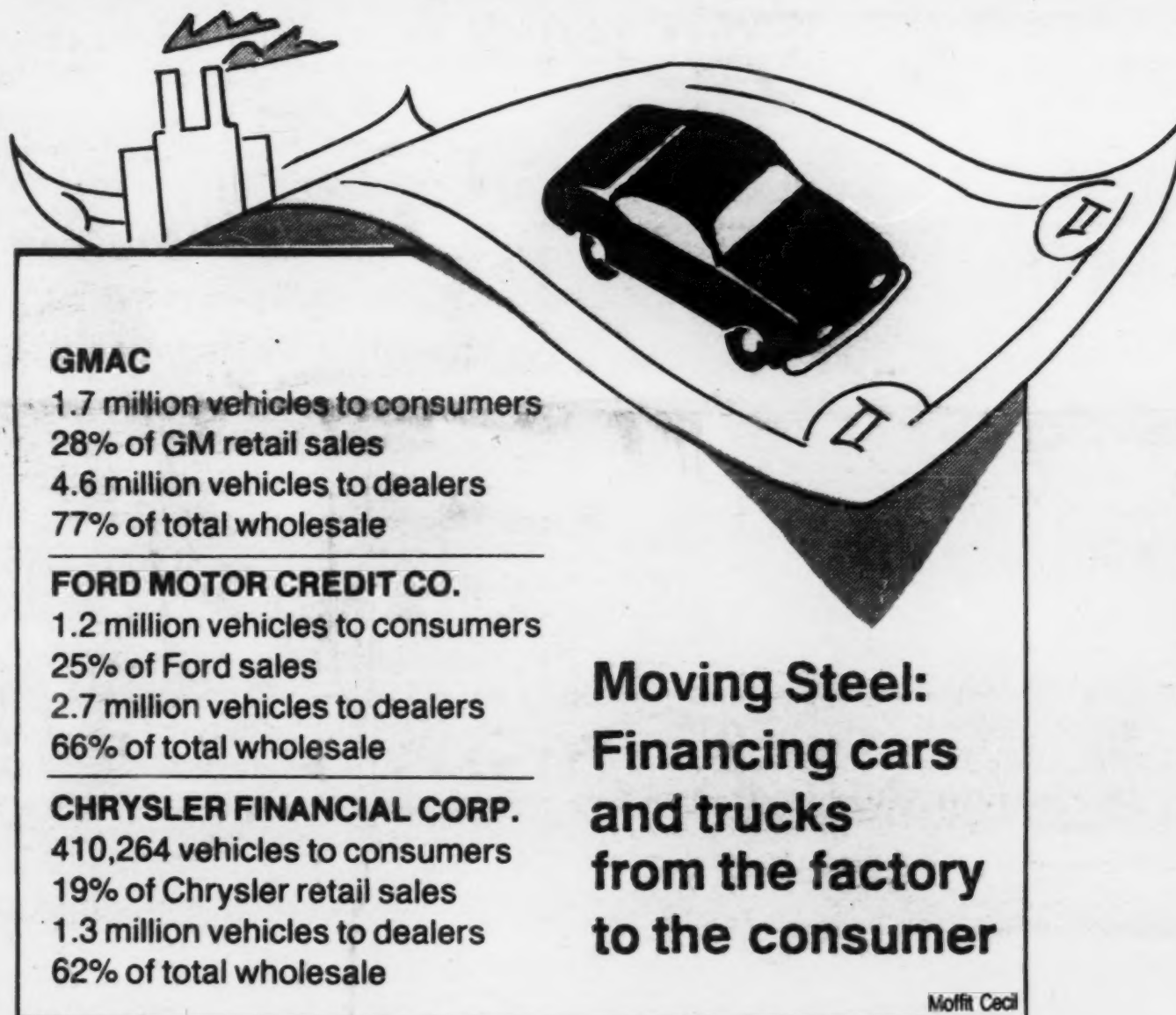
ROBERT L. CLARKE

- Expressed skepticism about industry proposals to create a "junk warehouse" to purchase bad assets from ailing farm banks. "I have trouble with creating a new regulatory level," Mr. Clarke said. "I think a bank's problems should be kept right at the bank."

- Predicted that the Treasury Department will introduce a banking bill in 1986. Mr. Clarke, who favors increased powers for banks so that they may compete on a par with nonbanking financial institutions such as Sears, Roebuck and Co., said.

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AN AMERICAN BANKER SPECIAL REPORT



Keeping the Steel Moving Is Job One

Automakers' Finance Companies May Diversify, but Car Loans Are Still the Key

By ROBERT M. GARSSON

Fifth of a Six-Part Series

DETROIT — John Russell, vice president for marketing at the BancOne Corp. of Columbus, Ohio, quickly brushes aside comparisons between banks and the captive auto finance companies.

Shifting Gears



Detroit Moves into Financial Services

Outsiders may forget that less than a decade ago, the auto finance companies almost certainly have not. For all their dramatic forays into new financial service businesses, the primary mission of GMAC, Ford Motor Credit Co., and Chrysler Financial Corp. remains what it has always

been: ensuring a steady, reliable flow of cash to finance the steel and chrome products that roll off the industry's assembly lines.

That business may sound a bit dull compared to, say, lending to less developed countries. But it is, by all accounts, a highly profitable business and one that is becoming fiercely competitive as banks, the auto captives, consumer finance companies, thrifts, and credit unions all fight for the right to make what by now ranks among the most basic of consumer credits: the auto loan.

Few lending products reach deeper into American life. Consumers may rent housing, forgo checking accounts, and live without a plastic card in their wallets, but almost everyone, from the poorest to the wealthiest, sooner or later seeks financing to buy or lease a car.

And for a variety of reasons, ranging from the symbolic role of the automobile in American culture to the practical need for a steady flow of cash to

— Auto Loans: Page 14

IRS Inquiry Finds Reporting Rules Widely Violated

By BARTLETT NAYLOR

WASHINGTON — A year-old investigation of 400 Florida banks has found widespread violations of regulations designed to combat money laundering, according to Internal Revenue Service officials.

Specifically, the IRS criminal investigations division examined 10,000 exemptions from currency transaction reports granted by the banks surveyed and found that about 20% were illegitimate. A bank can be fined \$10,000 for each business improperly exempted, which means the Florida banks could face up to \$20 million in penalties.

Results of the study have not yet been released.

The IRS has been attempting to beef up its fight against money laundering and the associated \$90 billion-a-year drug trade. Officials are

— Reporting: Page 9

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AN AMERICAN BANKER SPECIAL REPORT

Captive Finance Companies Know Their Job Is to Move Steel

Continued from Page 1

cal need for mobility, auto finance is about the closest thing to a risk-free loan that exists this side of the U.S. Treasury.

Thus, despite its attractiveness to the automakers and the muscle they can flex when needed, auto lending continues to be dominated by the nation's banks, a fact that the auto finance companies accept and even appreciate.

"We say that what makes for a strong auto market is when the banks are aggressive in buying retail paper," said Robert Baker, vice chairman of Chrysler Financial.

"When they pull in their horns, car sales go down."

Muscle Men of Auto Finance

Though banks have traditionally dominated auto lending, when the auto captives get serious about moving steel, the muscle they bring to bear can be truly awesome.

In the third quarter, for example, the big three virtually took over the market for car financing, say bankers and other auto lenders. Faced with huge inventories of vehicles — the result of a long strike by new-car haulers — and the usual pressures that come at the end of a model year, all three finance subsidiaries offered incentive financing at 7.7%.

"There was no opportunity to compete," said Robert Monteith, president of the Security Pacific Acceptance Corp., a subsidiary of Security Pacific National Bank, Los Angeles. "The good side, if there is one, is that it is a short-term thing."



ROBERT MONTEITH

The cost of the incentives is paid for by the parent company, and, all told, the Big Three paid almost \$1 billion to move steel, estimated Joseph Phillippi, E.F. Hutton's auto analyst.

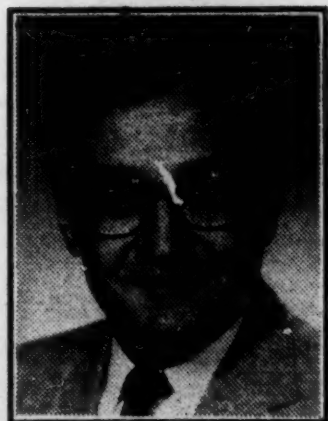
"It goes out of one pocket and into the other, but it's better than shutting down or slowing down the production line," Mr. Phillippi said. "That gets very expensive. You have the unemployment costs, the higher unit costs, and so forth."

According to data compiled by the Federal Reserve Board, banks own about 49% of consumer auto receivables nationwide. Another 31% is held by GMAC, Ford Credit, Chrysler Financial, and other finance companies, such as General Electric Credit Co.'s Auto Financial Services Operation. The remainder is held by credit unions.

Those proportions have varied over the years with the ups and downs of the economy, but 1985's numbers are not strikingly different from 1980's.

'Fair-Weather' Friends

Generally, said Mr. Baker, banks have pulled back in periods of high or rising interest rates, when state usury ceilings made it difficult, if not impossible, to price a car loan profitably.



WILLIAM E. ODOM

"The small bank," said GMAC chairman Robert F. Murphy, is "a fair-weather friend to the dealer. The dealer has a problem in tight-money situations because banks cut them off."

But when banks jump back into auto

lending, they can take back market share quickly, Mr. Murphy added. "When the banks offer low rates, that entices dealers back."

"Over cycles of interest rates, banks are competitive," said William E. Odom, executive vice president in charge of North American auto financing operations at Ford Motor Credit. Lately, he added, banks have been very competitive.

"There is a lot of money in the banking system looking for a home," he said. "Big chunks of money that would have gone to the Third World or to agriculture aren't going there anymore, so banks seem to want to go back to consumer banking."

In the competition for lending rights to consumers and dealers, banks have established relationships with both that help. Both consumers and dealers look to banks for transaction accounts, and some banks are bundling together services into a one-stop shopping package they think dealers will find especially attractive.

"We have one person to handle floor plan [inventory finance], retail paper [consumer loans] DDA [checking accounts] for the dealer, and even a credit line for acquisitions," said Robert Reich, the group executive in charge of Marine Midland Bank's auto-financing activities.

Mr. Reich said Marine and other banks have another advantage in seeking out relationships with dealers: "The domestic dealer doesn't want all his eggs in one basket."

Marine Midland is emerging as one of the largest factors in U.S. auto lending, with a network of 1,370 dealers. Within New York State, it has signed



MARINE MIDLAND'S ROBERT REICH: 'We like to touch the cars.'

on 900 of the state's 1,370 dealerships. About 45% of that total are import dealers; the rest are domestic.

Among Marine's recent coups is the signing of a contract to provide a package of financial services to the 80-dealer Subaru of New England network. Among the services Marine will offer are inventory financing and consumer loans and leases.

Diversified Relationships

However, the fact that a dealership establishes a relationship with a Marine Midland or a Chrysler Financial does not mean automatically that the fi-

nance unit will get all of the dealer's business.

In almost every case, dealers will offer their loans, known in the business as retail paper, to a number of lending institutions. Which lender is able to buy the paper depends in large part upon what kind of deal they offer the dealer.

Dealers maintain a primary relationship with at least one lending institution and secondary relationships with one or more other lenders.

"One of the reasons they require more than a primary relationship is that there are times when a consumer goes in and just doesn't want to deal with

➔ Auto Loans: Page 15

Citicorp Moves in Where Captives Refuse to Tread

DETROIT — The Chrysler Financial Corp. is not in business to help sell Chevrolets, and it most definitely is not in business to help move Toyotas from Japan. And therein lay Citicorp's opportunity.

"In the early 1980s, the captives refused to do financing of foreign autos, and that was really where we got in," said Milton Riseman, president of the Citicorp Acceptance Co., a St. Louis-based subsidiary.

As a result, he said, "Probably about 75% of our business is foreign."

The business the captive auto finance companies spurned proved both profitable and fast-growing for Citibank.

Mr. Riseman declined to discuss Citicorp Acceptance's size or profitability, but during a presentation to security analysts in New York two years ago, his predecessor, O.B. Kinney, said the unit had about \$3 billion in receivables in 1983.

It earned about \$25 million after taxes that year, Mr. Kinney said. In 1982, the year Citicorp Acceptance began making auto loans, it broke even, and the year before, when its business was limited to financing recreational vehicles, it lost money.

Mr. Kinney said in his 1983 presentation that he expected the subsidiary to earn in the neighborhood of \$20 for each \$100 of equity.

If the captive auto finance companies' refusal to finance imports gave banking firms such as Citicorp their opportunity, it was the banking industry's hesitance to make auto loans earlier in the century that prompted the automakers to enter the field in the first place.

"The banks were reluctant to get into the business," said Arvid Jouppi, an auto analyst for Rooney, Pace & Co.

"Auto finance was a high-risk business then, and banks were working with their depositors' money, so it was legitimate for them to stay out," he said.

Antitrust Suits Stalled Ford, Chrysler

The first of the three to start business was the General Motors Acceptance Corp. in 1919. Ford and Chrysler tried to follow, but the government pressed antitrust suits against all three, and in the 1930s Ford and Chrysler both entered consent agreements in which they

promised to stay out of auto finance.

General Motors fought the action, however, and prevailed in the late 1950s. Following the court decision, Ford formed its finance subsidiary in 1959 and Chrysler followed in 1964.

Ford and Chrysler paid a price for their late start, however.

"We finance about two-thirds of Ford and Mercury dealers," said William E. Odom, executive vice president in charge of North American auto financing operations at Ford Motor Credit. "The others were in business before Ford Credit was started. They have relationships with banks, they like them, and they elected not to change."

On the retail side, banks offered lower rates than the auto captives, and thus have traditionally been the lender of choice for most consumers, said Joseph Phillippi, an auto analyst for the E.F. Hutton Group.

"If you couldn't get a bank loan, you went to the auto dealer and paid 50 basis points more," he added. "They were the lender of last resort and almost no one was turned down."

As interest rates shot skyward in the late 1970s, piercing through most state-imposed usury ceilings, banks began to pull back from the markets and the auto companies introduced the first of the incentive programs.

Thus, while banks charged an average of 52 basis points less than finance companies in 1980, according to Federal Reserve Board data, the finance companies were cheaper in 1981, the first year of the incentives, and the next two years as well.

In 1984, banks underpriced the finance companies, but they have failed to keep pace with the lower rates offered by the captives for most of this year.

High rates or low, consumers may be finding the dealer showroom a more congenial place to arrange a loan than the bank lobby. Dealerships are open nights and weekends, the hours when working Americans are likely to shop for cars.

"It's more convenient to go to the dealer for financing than to try to get to the bank between one and three," said Robert Monteith, president of the Security Pacific Credit Corp.

— Robert M. Garsson

AN AMERICAN BANKER SPECIAL REPORT

Competition Heats Up in Profitable World of Auto Finance

Continued from Page 14

GMAC," for example, said Mr. Monteith of Security Pacific Credit.

Security Pacific Credit has about \$2 billion in assets and virtually all of that amount — about \$1.85 billion — is retail, rather than floor plan financing. Imports account for about 60% of the total, Mr. Monteith said.

"In a primary relationship, I like to think I have the first opportunity to buy the majority of the retail paper," he said. "I'd like to have 100%, of course, but the fact is I would be happy with 50% or more."

To understand the dealer's relationship with lenders, it is necessary first to understand that finance and insurance earnings, or F&I income, can be a significant source of dealer profits, especially in hard times.

"Typically, the dealer adds on 50 to 100 basis points," said Mr. Reich. They also make money on the credit life insurance sold to car buyers and, in some cases, receive direct commissions from lenders in addition to their cut of the annual percentage rate, or APR. Of commissions, Mr. Reich added quickly, "We don't go for that."

So when a dealer tells a customer he can provide financing at 12% per year, he already knows he can sell the paper to a financial institution at a price that would yield the buyer 11% to 11½% on the loan. Having a stable of lenders in line to bid on the paper provides a

number of alternatives.

Also helpful is the ability to bid quickly. GMAC, for one, is rigging together an electronic system that eventually will make it possible to tell dealers whether it will buy a retail contract while the customer is still on the showroom floor, a feature Mr. Murphy said he believes will give dealers one more tool to use in closing a sale.

That kind of system requires a quick, automated check of the buyer's credit history and an automatic, electronic evaluation of a customer's creditworthiness through a process known as credit scoring.

"I can see that the GMAC system would be a real marketing tool," said Milton Riseman, president of Citicorp Acceptance Co., a St. Louis-based subsidiary of the big New York banking firm.

"But the the question is, do you make a decision on the basis of the credit scoring, or do you want a human to look at it afterward and add his judgment?"

Mr. Riseman, while acknowledging that Citicorp Acceptance is considering a similar type of system, added that he believes the final decision on granting credit should be made by a credit officer, rather than a computer.

Marine Midland's Mr. Reich agreed, saying his bank does not use credit scoring at all.

"We are dealing with a \$15,000 to \$20,000 balance, and you want someone with seasoned judgment to look at it," he said.

GMAC's chairman, however, noted that credit losses tend to run low in auto lending, almost irrespective of the borrower's ability to pay.

"There has always been a feeling among a certain layer of people that the car is a status symbol, even among people of moderate income," said Mr. Murphy.

"People will forget other things to make their monthly car payments. We have situations where people buy cars equal to their annual income and still pay it off."

UMW . . .

Continued from Page 2

breach of trust" regarding the placement of union-controlled pension funds into noninterest-bearing accounts at the bank. In 1980, the year the Comptroller and the bank entered into the supervisory agreement, the bank was the subject of investigations by federal grand juries and the Securities and Exchange Commission in connection with loans to directors associated with the Mine Workers.

Besides the problems related to the bank's involvement with the union, National Bank of Washington also was plagued by a portfolio full of low-yielding mortgages and municipal bonds.

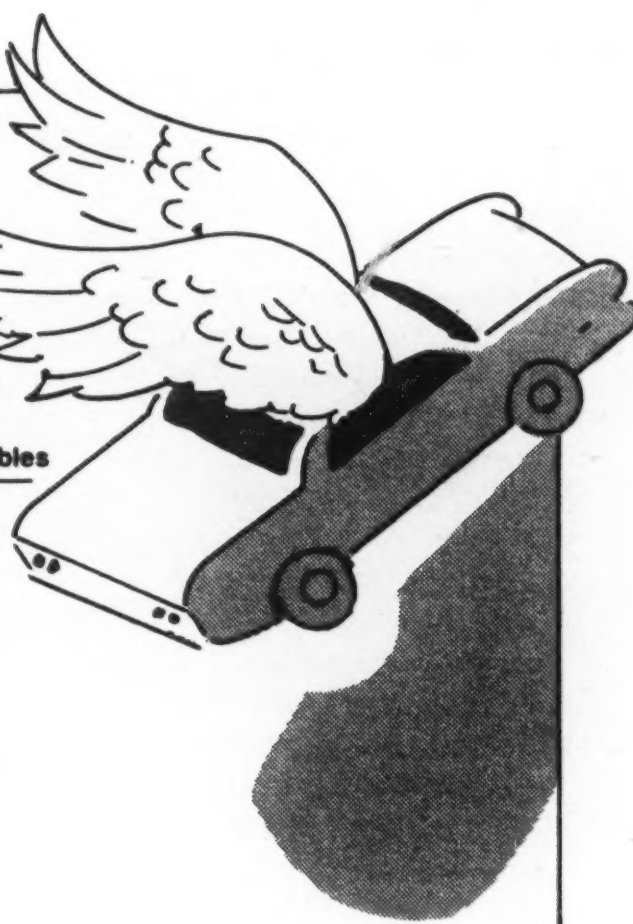
Generally, earnings have been on the upswing in the last few years — from \$2.6 million in 1981 to \$3 million in 1982, \$6.1 million in 1983, and \$8.2 million in 1984. However, earnings have slipped this year.

In the first nine months of 1985, the bank earned \$7 million, down from \$7.9 million in the corresponding period in 1984. And the company's profitability also is down, to 80 cents for every \$100 of average assets in the first three quarters of 1985 from \$1 in 1984.

The decline in profits and profitability was attributed in part to a \$5.5 million increase in the provision for loan losses. Late last year, the Comptroller ordered the bank to bolster its reserve to reflect two deteriorating credits, one to a construction firm and the other to a computer firm.

The Loan Loss Experience

	Net Losses	Provision	Losses/Total Receivables
GMAC			
1984	\$104.4	\$121.5	.2%
1983	120	87.6	.24
1982	154.7	245.0	.34
FORD CREDIT			
1984	94.3	178	.35
1983	69	117	.33
1982	74.4	81	.42
CHRYSLER			
1984	(.1*)	24.6	NA
1983	3.8	17.0	.1
1982	20.1	24.7	.6



*net recovery

Moffitt Cecil

At the subsidiaries of the big three auto companies, losses run surprisingly low. When Chrysler Financial's Mr. Baker was asked about delinquencies on a recent day, for example, he responded not only with figures on chargeoffs, but on the number of customers who were delinquent that week: 208, precisely, out of almost half a million total.

Chargeoffs at all three companies run at well below one-half of one percent of receivables, and all three companies follow conservative policies in providing for future loan losses, almost invariably increasing the reserve by amounts well in excess of actual losses.

Still, the finance companies have to stay on their toes to keep credit losses in check, said Wayland Blood, who is responsible for finance at Ford Credit.

"It's unusual to have a loss, but when a dealer goes belly-up we lose a million or two," Mr. Blood said.

By monitoring financial statements, Ford can stay reasonably well-ap-

praised of a dealer's financial health, Mr. Blood said, but it is still necessary to pay a few visits a year to each dealer.

"We go in and actually touch the cars, see for ourselves that they are there," he said.

Depending upon the dealership and its track record, surprise audits are scheduled "several times a year," Mr. Blood said.

Others say they count as often as once every several weeks.

"How often we check depends upon, first, our experience with the dealer," said Marine's Robert Reich. "If the cars were there the last several times, we check less often."

A second factor is the size of the dealer and how often it turns over inventory. Third is the health of the financial statements.

But in any case, Mr. Reich said, Marine likes to "touch the cars anywhere from once a week to once a month," to assure itself that the steel it has financed is where it is supposed to be. ■

Texas . . .

Continued from Page 9

new Delaware bank. The bank also plans to add new services to its standard MasterCard and Visa cards, and to begin offering premium MasterCard and Visa cards, said Paul A. Clinkscales, senior vice president at Texas American Bank Fort Worth, the company's lead bank.

He declined to say what the bank will charge for its Delaware-issued cards.

Mr. Clinkscales said the new rate will be somewhere between Texas American's existing rate, about 14.4%, and 19.8%, a common rate in the industry.

Also, Texas American will begin charging an undisclosed annual fee, he said.

There are no limits on credit card interest rates or annual fees imposed by

Delaware law, which attracted Texas American to the state. "It offers one of the more favorable consumer credit laws," Mr. Clinkscales said.

Delaware's liberal credit laws, initially passed in 1981, already have attracted the credit card operations of about a dozen out-of-state banking companies, including two from Dallas — RepublicBank Corp. and MCorp.

A Dallas-based credit card processor, Southwestern States Bankcard Association, also is starting a Delaware operation.

Texas American has issued credit cards primarily to Texans, but Mr. Clinkscales said the banking company may expand its marketing efforts outside Texas. Many banks have promoted and issued credit cards around the country. ■

Mergers . . .

Continued from Page 2

Allied Irish Banks Inc. of Dublin, Ireland, has increased its stake in the First Maryland Bancorp in Baltimore to 47% by acquiring an additional 639,084 shares for a total of \$14.6 million.

The transaction was the fourth of a series of six share purchases by Allied Irish scheduled as part of a March 1983 agreement under which Allied Irish will become the majority shareholder by the end of 1987.

With \$4.2 billion in assets, First

Maryland is the state's second largest bank holding company.

The Conifer Group, a bank holding company based in Worcester, Mass., has agreed to acquire the Hampshire National Bank in South Hadley, Mass., for \$17 million in stock.

Under terms of the transaction, each share in Hampshire will be exchanged for 4.4 shares of Conifer.

— Bart Fraust

American Banker

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